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C O N F I D E N T I A L SECTION 01 OF 02 TAIPEI 001878

SIPDIS

STATE PASS AIT/W AND USTR  
STATE FOR EAP/RSP/TC, EAP/EP, EB/IFD/OIA  
USTR FOR SCOTT KI  
USDOC FOR 4420/USFCS/OCEA/EAP/LDROKER  
USDOC FOR 3132/USFCS/OIO/EAP/ADAVENPORT  
TREASURY PASS TO OCC/AMCMAHON  
TREASURY ALSO PASS TO FEDERAL RESERVE BOARD OF GOVERNORS,  
AND SAN FRANCISCO FRB/TCURRAN

E.O. 12958: DECL: 04/19/2025

TAGS: [ECON](#) [EFIN](#) [PINR](#) [TW](#)

SUBJECT: BABY STEPS TOWARD TAIWAN BANK CONSOLIDATION

REF: A. TAIPEI 1413

1B. TAIPEI 1797

Classified By: AIT DIRECTOR DOUGLAS PAAL, REASON 1.5 B/D

11. (SBU) Summary: The announcement on April 19 of a merger plan approved by the boards of both Shinkong Financial Holding Corporation and Macoto Bank is a small step toward much needed bank consolidation in Taiwan, and one that government and investment bankers alike hope will serve as a catalyst for additional bank mergers. Foreign bankers in Taiwan downplay the significance of the merger since there are no plans to close any existing bank branches, and remain more focused on the still-uncompleted sale to a foreign consortium of a controlling share in the much larger state-owned Changhwa Commercial Bank (ref A). End summary.

12. (U) According to media reports, Shinkong (standard pinyin: xin guang) Finance, Taiwan's seventh largest financial holding company announced on April 19 a plan to acquire Taiwan's privately owned and unlisted Macoto (standard pinyin: cheng tai; the Japanese name 8Macoto8 translates into English as &honest8) Bank through a share swap valued at over US\$633 million. Macoto has the tenth largest bank network in Taipei, ahead of better known TAIEX-listed private sector banks such as Taishin and Chinatrust. Macoto is sometimes described as a regional bank with operations concentrated in northern Taiwan. It currently has 81 branches including 29 branches in Taipei City, 16 branches in the surrounding suburbs, and one in Hong Kong. Acquisition of Macoto's network will bring Shinkong,s branches up to 108 and make it the fifth largest private sector bank in Taiwan. Shinkong derives about 90 percent of its revenues from its life insurance business and it is currently looking to expand its life insurance operations to China.

13. (C) Mergers and acquisitions are a hot topic in Taiwan's banking community as the government continues toward its second stage financial reform goals of reducing the number of financial holding corporations and reducing the number of state-owned banks. Merger fever was heightened when President Chen Shui-bian announced last year an ambitious goal to halve the number of state-owned financial firms to six by the end of 2006. Vice Premier Wu Rong-yi highlighted the Chen Administration's desire to move forward on the second stage financial reform goals in a meeting with AIT on April 13 (ref B). Kong Jaw-sheng told AIT on April 12 that Taiwan would press ahead with bank consolidation this year.

14. (SBU) For a while, several banks in Taiwan were talking about consolidation with rivals. At the end of 2004, financial mergers and acquisitions were billed as one of the hot equity plays in the region. However, lower-than-expected bids in the closely watched contest between a consortium led by Dutch bank ING and a consortium led by Japan's Shinsei Bank for control of Changhwa Bank has stalled selection of a bid winner. The two consortia offered bids on March 18 for a controlling stake in Changhwa, but negotiations are still ongoing, and an announcement of the bid result is not due until sometime in June 2005.

No Help for Taiwan's Over-banking Problem

14. (SBU) Comment: Taiwan's 48 lending banks serve a population only half South Korea's, which has fewer than half the number of banks. This problem of &overbanking8 limits the profitability of all banks operating in Taiwan. Shinkong,s acquisition of Macoto will not remove excess capacity from the banking system since there is no plan to close any of Macoto's 81 branches. However, it should make Shinkong banking operations much stronger, more able to compete as in the East Asia region, and that is a positive

step towards the announced goals of a stronger banking sector. Shinkong's attempt to enter the China market as an insurance company may provide a back door for Taiwan companies to sell financial products in China even without an MOU on bank supervision.

15. (SBU) Some analysts have suggested Shinkong is paying too much for Macoto and shares of Shinkong have fluctuated since the merger announcement, but a Morgan Stanley executive told AIT that the share exchange rate between Shinkong and Macoto is reasonable because of Macoto's well-developed credit card business and its new IT systems. The executive also noted that the two Shinkong and Macoto are a good match for each other with little overlap in their current operations. In order to encourage consolidation, Taiwan stopped issuing new branch licenses over a year ago, forcing expansion-minded financial companies to grow by acquiring existing branches. A State Street Bank executive played down the significance of the merger since it involved only local banks. End comment.  
PAAL